ORIGINAL

E000016203

From: Abhay Padgaonkar
Date: October 18, 2021
Docket: APS Rate Case (**E-01345A-19-0236**)
Re: **The Fitch Ditch: What's the Ratepayer Impact (Negligible) and Who is to Blame (APS)?**

Dear Commissioners,

Have you ever spent $50 to save $1? Hopefully not, because it makes no sense. But that is exactly what APS is scaremongering you and the ratepayers into doing. APS wants you to act as if Arizonans elected Dan Lowrey of S&P Global, Daniel Neama of Fitch, and Shar Pourreza of Guggenheim as the commissioners. This comprehensive research and analysis answers many important questions:

- Who other than the ACC has a mandate to prescribe just and reasonable rates? (Nobody)
- What exactly does "hamper our ability" mean? (Nothing)
- Who is to blame for the fallout and downgrades? (APS)
- What does "constructive" regulatory environment mean? (The ACC is in APS's pockets.)
- Why Georgia (AA2 state per RRA) must NOT be on our mind? (It's in the Ratepayer Hall of Shame)
- How could APS avoid future downgrade and increase FFO despite lower ROE? (Tighten the belt).

Who other than the ACC has a mandate to prescribe just and reasonable rates? **(Nobody)**

APS is creating higher borrowing cost as a red herring on the back of Fitch,[1] Guggenheim,[2] and other downgrades. Credit rating firms like Fitch or equity research firms like Guggenheim do not represent ratepayers' interest. Quite the opposite. They represent interests of lenders and shareholders without ever caring whether rates are just and reasonable per article 15, section 3 of the Arizona Constitution. We already know that APS executive compensation has disproportionate weighting on shareholders' interests, but even Pinnacle West directors are required to hold or control enough shares to "align their personal financial interests with those of the Company's shareholders." So, who among the credit rating agencies, equity research firms, APS executives, or Pinnacle West Board of Directors is incentivized to advocate for and safeguard ratepayers' interests? **NOBODY**.

The Commission, however, not only has broad powers, but a constitutional mandate to prescribe just and reasonable rates.[3] And as the Supreme Court of Arizona said, the Commission was not designed to protect powerful public service corporations and their management but, rather, was established to protect powerless citizens.[4] We must never lose sight of that despite all the gaslighting and predictions of the sky falling on Arizonans because APS may earn 1% less revenue.

How much is APS's revenue request vs. higher borrowing cost? **($169 mill. vs. $3.4 mill. or 50:1)**

Jeff Guldner wrote to the Commission: "As I stated in the Open Meeting, these downgrades of the Company's credit rating will result in higher borrowing costs for the Company—costs which will be borne by our customers, and which will hamper our ability to build the infrastructure necessary to support economic growth."[5]

---

[1] APS/Guldner Letter to the ACC with Fitch report on 10/12/21 at: https://docket.images.azcc.gov/E000016137.pdf
[2] APS/Guldner filing of Guggenheim report on 10/07/21 at: https://docket.images.azcc.gov/E000016064.pdf
[3] Arizona Constitution, Article 15 Section 3 at: https://law.justia.com/constitution/arizona/15/3.htm
[4] CORP. COM'N v. State Ex Rel. Woods at: https://law.justia.com/cases/arizona/supreme-court/1992/cv-91-0082-sa-2.html
[5] APS/Guldner Letter to the ACC with Fitch report on 10/12/21 at: https://docket.images.azcc.gov/E000016137.pdf

Fair enough, but making a mountain out of a molehill is the very definition of scaremongering. How much are the higher borrowing costs? Based on what assumptions? How do the higher borrowing costs compare to the $169 million yearly revenue increase sought by APS? Is that a good trade-off for the ratepayers? What exactly does "hamper our ability" mean? Mr. Guldner fails to raise, let alone answer any of these questions.

The Fitch report stated that PNW is targeting an average annual utility capital expenditure of **$1.5 billion** in 2021-2023. So let's analyze these questions Mr. Guldner chose to ignore and determine how much higher the borrowing costs would be and how they compare to the revenue increase sought by APS. That way, the ACC can decide for itself — given its constitutional mandate — which scenario would set fair and reasonable rates and whether it would be an equitable trade-off.

The following table calculates annual debt payment for the Baseline scenario (Olson #1 Amendment) for $1.5 billion capital expenditure, assuming conservatively that APS will fund it from external debt financings and equity infusions rather than from internally generated cash flow. It then calculates the annual debt payment for the Credit Downgrade scenario (BBB+), assuming a 50 basis point (i.e., half a percentage point) increase in debt cost over the 4.10% rate in the Baseline scenario. (Note: The weighted-average interest rate on long-term debt at year-end 2020 was only 3.86%.) The analysis then computes higher borrowing cost as the difference between the annual debt payments under the two scenarios. Finally, it compares APS's requested revenue increase to the higher borrowing cost to calculate a ratio of the two.

Ln	Scenario	Yearly Investment ($000)	Capital Structure Debt %	Debt Cost	Debt Payments Annual ($000)	Cap Structure Equity %	Equity Cost	Equity Payments Annual ($000)	WACC Cost
1	Baseline (Olson #1, P2)	$1,500,000	45.33%	4.10%	**$ 27,878**	54.67%	8.70%	$ 71,344	6.61%
2	BBB+ (Credit Downgrade)	$1,500,000	45.33%	4.60%	**$ 31,278**	54.67%	8.70%	$ 71,344	6.84%
3	Higher Borrowing Cost (L3 - L2)				**$3,400**				
4	APS Requested Revenue Increase				**$169,000**				
5	**Requested Revenue Increase vs. Higher Borrowing Cost (L4/L3)**				**50:1**				

Based on this analysis, this is what Mr. Guldner is telling the ACC: *If you don't authorize $50 (or $169 million revenue increase), the borrowing cost may go up by $1 (or $3.4 million).* **But isn't it better for ratepayers to pay $1 in possibly higher borrowing costs rather than a guaranteed $50 rate increase?** (Even a 100 BPS debt cost increase from further downgrade, if one were to occur, would still result in a **25:1** ratio.)

Notwithstanding the fearmongering by APS, as a ratepayer, I will take the under on lower bills because of lower ROE and disallowances any day.[6] That's because a lower ROE at 8.7% and $485 million in SCR disallowance in the ROO along with the Commission-adopted amendments will **save ratepayers 50 times more** than higher borrowing costs that may result from it!

[6] "Ignore the equity analysts' temper tantrums..." at: https://docket.images.azcc.gov/E000016100.pdf

Chairwoman, please note that the $1.5 billion of estimated capital expenditure covers **all** the generation, transmission, distribution, and other needs, **including clean energy transition**, according to APS.[7] In short, the concern the Chairwoman had as the only vote against Olson #1 — possibly from falling prey to APS's fearmongering — that the 8.7% ROE may not adequately recognize "the financial realities of our transition to clean energy" is simply not based in reality.

Capital Expenditures
(dollars in millions)

	Estimated for the Year Ended December 31,		
	2021	2022	2023
APS			
Generation:			
Clean:			
Nuclear Generation	$ 114	$ 116	$ 125
Renewables and Energy Storage Systems ("ESS") (a)	200	276	281
Other Generation (b)	203	190	187
Distribution	577	556	549
Transmission	185	181	179
Other (c)	221	181	179
Total APS	$ 1,500	$ 1,500	$ 1,500

Finally, any refinancing of upcoming LTD maturities are minimal in case APS decides to use that as an excuse. As the APS long-term debt schedule[8] here shows, LTD maturities don't even begin until **June 2024** and amount to only **$1.5 billion** for the next 12 years until 2033.

LONG-TERM DEBT SCHEDULES
(DOLLARS IN THOUSANDS)

YEAR ENDED DECEMBER 31,	2020
3.35% unsecured notes due June 15, 2024	250,000
3.15% unsecured notes due May 15, 2025	300,000
2.55% unsecured notes due September 15, 2026	250,000
2.95% unsecured notes due September 15, 2027	300,000
2.60% unsecured notes due August 15, 2029	405,000

Thus higher borrowing cost is nothing but a red herring by APS.

What exactly does "hamper our ability" mean? **(Nothing)**

The one-notch Fitch downgrade from A- to BBB+ still represents investment grade creditworthiness. In fact, it is good three notches *above* non-investment grade. Although APS would like all to believe that the sky is falling, the rating downgrade is unlikely to negatively affect APS's ability to secure credit at competitive rates — especially considering that issuance of loans even from companies with speculative-grade credit ratings hit a one-year high, according to the Wall Street Journal.[9]

A

High credit quality

'A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB

Good credit quality

'BBB' ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.

Sure, the debt cost may go up slightly, but as the analysis above shows, that is a far better trade-off for ratepayers than guaranteeing 50-times more in revenue to APS to support imprudent SCR investments and higher profit margins!

Who is to blame for the fallout and downgrades? **(APS)**

As the former ACC Chair accurately summarized earlier this year: **"I think you would be hard-pressed to find a utility that behaved as badly as APS did in the last decade."**[10] That assessment must be kept in mind when APS and the Wall Street firms whine about APS receiving below-average ROE. Even the Fitch report[11] summed up APS's self-inflicted wounds in explaining the credit downgrade as follows:

---

[7] PNW Form 10-Q, P. 94 at: http://s22.q4cdn.com/464697698/files/doc_financials/2021/q2/Final-PNW-06.30.2021-10Q.pdf
[8] APS Long-Term Debt Schedule at: http://s22.q4cdn.com/464697698/files/doc_downloads/fixed_income/2021/PNW-LTD-Schedule.pdf
[9] Junk-Debt Sales Soar Toward Record Year at: https://www.wsj.com/articles/junk-debt-sales-soar-toward-record-year-11632043982
[10] "The 'Darth Vader' of electric utilities" at: https://a-matter-of-degrees.simplecast.com/episodes/the-darth-vader-of-electric-utilities-vXAlpmPC
[11] Fitch Downgrades Pinnacle West at: https://www.fitchratings.com/research/corporate-finance/fitch-downgrades-pinnacle-west-capital-arizona-public-service-to-bbb-outlooks-remain-negative-12-10-2021

> In 2019, both PNW and APS were assigned an ESG relevance score of '4' for Social issues following complaints of excessive bills by customers following the implementation of time-of-use rates. Regulators have found that customer education and outreach efforts were insufficient, which has led to increased regulatory scrutiny and the absence of rate recovery.

Who created a massive rate migration to TOU rates? Who botched the customer education and outreach plan to accomplish it? Who ignored customer complaints and denied that the bills were excessive? Who created a faulty rate comparison tool that steered customers to more expensive plans? Who blocked Overland from having direct access to the rate comparison tool? Who was planning to quietly remove the faulty rate comparison tool over the weekend when the scandal exploded on TV and newspapers? Who repeatedly denied overearning from placing hundreds of thousands of customers not on their most economical plans? Who then reached a $25 million settlement with the AG's office for 225,000 APS consumers who were not on their most economical plan? Who had bottom-of-the-barrel ranking in the J.D. Power survey in the West — and even worse score than PG&E — while tying for the second-to-last place among 58 large utilities nationally? Who declared the J.D. Power survey as irrelevant and paid huge bonuses based on an internal measure? Who rationalized, deflected, or defiantly denied all these deficiencies? (**APS, APS, and APS**.)

What does "constructive" regulatory environment mean? **(The ACC is in APS's pockets.)**

Who hijacked the ACC by interfering in two straight elections, including a dark-money campaign that was hidden for five years until forced to disclose? But Fitch or Moody's or S&P don't care about ratepayers or just and reasonable rates. Hence some historical context with PNW credit ratings is necessary to show what they do care about. The Fitch ratings history[12] shows that PNW had BBB' credit rating from 2000-2015. There were two major inflection points (in May 2015 and June 2019) that culminated in the latest rating downgrade:

(1) <u>May 2015 Upgrade:</u> The Fitch rating was upgraded to A- in May 2015 citing "**constructive** regulatory environment in Arizona" and "continued **supportive** regulatory regime in Arizona."[13] It came merely months after APS had spent millions in dark-money campaign during the 2014 election to elect two commissioners to the ACC — an election in which Comm. Kennedy was defeated.

21-Dec-2007 BBB- Revision Outlook	30-Jan-2006 BBB- Downgrade	06-Jan-2006 BBB Rating Watch On	06-Dec-2005 BBB Revision IDR	30-Mar-2005 BBB Affirmed	09-May-2003 BBB Affirmed	04-Dec-2002 BBB Rating Watch On	25-Oct-2000 BBB New Rating

1	28-May-2015 A- Upgrade	01-Oct-2014 BBB+ Affirmed	30-May-2014 BBB+ Affirmed	07-Apr-2014 BBB+ Affirmed	17-May-2013 BBB+ Upgrade	21-May-2012 BBB Upgrade	25-May-2011 BBB- Affirmed	26-May-2010 BBB- Revision Outlook	09-Apr-2009 BBB- Affirmed

2	26-Jun-2019 A- Affirmed	26-Oct-2018 A- Review - No Action	18-Jun-2018 A- Affirmed	18-Oct-2017 A- Review - No Action	20-Jun-2017 A- Affirmed	27-Sep-2016 A- Review - No Action	26-May-2016 A- Affirmed	30-Sep-2015 A- Review - No Action

NOW	12-Oct-2021 BBB+ Downgrade	15-Oct-2020 A- Review - No Action	25-Jun-2020 A- Affirmed

[12] Fitch Rating History of PNW at: https://www.fitchratings.com/entity/pinnacle-west-capital-corporation-80464127#ratings
[13] Fitch Upgrades PNW and APS's IDRs to 'A-' at: https://www.fitchratings.com/research/corporate-finance/fitch-upgrades-pnw-aps-idrs-to-a-outlooks-revised-to-stable-28-05-2015

Enabled by corrupt, APS-friendly commission, APS's residential rates shot up by 11% from 2015-2018, reaching 14.16 cents/kWh **despite** $143 million in TEAM refunds due to lower federal corporate income tax rate — and aided by the disastrous 2017 rate increase, resulting in an unprecedented customer uproar and backlash in its aftermath. The rate base in the 2019 rate case is **33%** higher than in the 2016 rate case merely three years ago.

2014	2015	2016	2017	2018
12.77	12.93	13.11	13.57	14.16*

(2) June 2019 Negative Outlook: The Fitch outlook became **negative** for the first time since 2009.[14] Fitch stated that it remained concerned about "recent changes to the Arizona Corporation Commission" — referring to the elections of Comm. Kennedy and Olson in 2018 — and initiation of a staff review regarding implementation of retail rates approved in APS's 2016 rate case and potential over-earnings at APS. The negative outlook coincided with ACC's **Decision No. 77270** upon completion of the Overland Rate Review, in which the Commission found that APS's CEOP was *not* reasonable and understandable, ordered APS to provide customers with pro forma billing, and ordered APS to file a new rate case. The outlook turned negative as soon as Fitch figured out that fallout from APS's years of mischief had begun.

> Rate Review Completed: The ACC recently completed its review of APS's rates. While there were no material findings of overearning, the commission ordered the utility to file its next GRC by Oct. 31. The rate review was prompted by numerous customer complaints of excessive bills following the implementation of Time-Of-Use rates in APS's last GRC. The findings of the review were mixed and although the ACC concluded that the utility's customer outreach efforts were insufficient (given that more than half of its customers didn't choose their most economical rate plan) they also found that many customers did not change their consumption habits as expected.

Bottom Line: 1) When the ACC was in APS's pockets ("constructive" regulatory environment), PNW credit rating was upgraded. 2) When the ACC began challenging APS's skullduggery ("regulatory risk" or "regulatory headwinds") the outlook turned negative. 3) When it appeared earlier this month that the ACC may finally hold APS accountable to the ratepayers, the credit rating was downgraded.

Why Georgia (AA2 state per RRA) must NOT be on our mind? (It's in the Ratepayer Hall of Shame)

What do RRA's State regulatory rankings mean? "An Above Average designation indicates that, in RRA's view, the regulatory climate in the jurisdiction is relatively more constructive than average, **representing lower risk for investors that hold or are considering acquiring the securities issued by the utilities operating in that jurisdiction**."[15] Conversely, lower risk for investors translates to higher risk and unjust and unreasonable rates for captive ratepayers. That's why RRA's "downgrade" of Arizona is a huge compliment to the ACC and a big boost for the ratepayers. RRA's State Regulatory Evaluation is a Ratepayer Hall of Shame because in a top-ranked state like **Georgia**, regulators prostrate themselves in front of the powerful monopoly. APS wants you to be like them.

The Vogtle Boondoggle in Georgia: Nearly 100% cost overrun of billions after 6-year delay

- Southern Co. again admitted what outside experts have been telling regulators for months — its **$27 billion-plus** Vogtle project at the complex outside Augusta will take longer and cost more than previously estimated.[16]
- Vogtle's expansion, meanwhile, has been riddled with problems and delays since the PSC approved the project in 2009. The two new reactors were **originally slated to be in operation in**

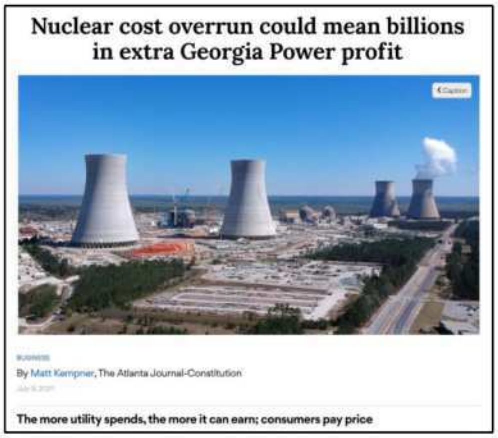
[14] Fitch Outlooks to Negative at: https://www.fitchratings.com/research/corporate-finance/fitch-affirms-pinnacle-west-capital-arizona-public-service-idrs-at-a-outlooks-to-negative-26-06-2019

[15] Report from S&P Global Intelligence division RRA filed by APS at: https://docket.images.azcc.gov/E000016172.pdf

[16] "Georgia Nuclear Plant Cost Tops $27B As More Delays Unveiled" at: https://www.wabe.org/georgia-nuclear-plant-cost-tops-27b-as-more-delays-unveiled/

2016 and 2017, respectively. Now, it projects the second quarter of **2022** for the first, and the first three months of **2023** for the last reactor.[17]

- In June, the U.S. Nuclear Regulatory Commission began a **special inspection** to determine why so much of the electrical wiring in the plant had to be redone.



- But for Georgia Power and its parent Southern Co., the extra costs could represent a huge financial windfall: billions of dollars in extra profit. <u>That's because the electric utility's profit from the sprawling project is tied largely to how much it spends, not whether it stays within budget.</u>
- Rates have gone up 3.4% to pay for earlier costs and Georgia Power projects rates will rise another 6.6% for a total increase of **10%**.
- Georgia Power customer will have paid over **$850** in such fees <u>before</u> the project is completed. Then their bills are expected to rise higher to cover all "prudent" and "reasonable" construction costs and company profits that rise with those costs.

- **Stock analysts, bond-rating agencies often praise regulators' "<u>constructive</u>" relationship with Georgia Power. In late 2019, the PSC agreed to let Georgia Power collect <u>one of the highest rates of return</u> among its peers around the nation.**
- **<u>BLATANTLY SHAMELESS:</u>** On Dec. 21, 2017, the day the PSC voted to allow construction to continue at Plant Vogtle, Georgia Public Service Commissioner Tim Echols emailed Paul Bowers, the CEO of Georgia Power. **"Paul, not to get ahead of ourselves, but when we cut the ribbon for Unit 3, I want to see the President of the United States holding the scissors, and you and me on each side of him. Deal?"** Echols wrote. **"Deal!!!"** Bowers responded.[18]

<u>Commissioners, are you willing to engage in such shamelessly anti-ratepayer activities to get a higher state ranking from RRA?</u> (Arizona's ratepayers do <u>not</u> want the ACC to become the Corruption Commission ever again.)

How could APS avoid future downgrade and increase FFO despite lower ROE? (Tighten the belt)

The Fitch report says: "Absent future regulatory relief or <u>management action</u> to rebalance its capital structure, Fitch believes FFO leverage could deteriorate to 5.0x or more for PNW and APS in 2023."

Of course, Jeff Guldner left out the part about any management action. APS would rather take the easy way out by getting "regulatory relief" on the backs of the captive ratepayers so management doesn't have to tighten the belt. FFO Leverage simply measures Total Debt in relation to Funds From Operations (FFO), of which Net Income is a major component. Higher debt and/or lower Net Income due to lower ROE would make FFO Leverage ratio worse.

[17] "Nuclear cost overrun could mean billions in extra Georgia Power profit" at: https://www.ajc.com/news/business/nuclear-cost-overrun-could-mean-billions-in-extra-georgia-power-profit/YIA3T3YHZRHI5A7GCZHREIXCPE/

[18] "Watchdog Group: Ga. Public Service Commissioner Too 'Cozy' With Ga. Power" at: https://www.wabe.org/watchdog-group-ga-public-service-commissioner-cozy-ga-power/

But what's the big deal? The $111.431 million decrease in Base Revenue Requirement in the ROO translates to **$3.6 million in Total Revenue Increase** in reality when taking Base Rate <u>and</u> Adjustors into account, and as APS explained to its own investors below:[19]

	APS (Rebuttal)	ACC Staff (Surrebuttal)	RUCO (Surrebuttal)	ALJ (ROO)
Total Revenue Increase (Base Rate and Adjustors) ($MM)	$169 5.1%	$59.8 1.8%	$(50.0) (1.5)%	$3.6 0.1%
Base Rate Increase ($MM)	$41	$(55.2)	$(165.0)	$(111.4)

15	Required Increase/(Decrease) in Base Revenue Requirement *(line 14 + line 12)*	($111,431)	($151,456)

For the same reason, the **$151.456 million** decrease in Base Revenue Requirement above[20] due to approved Commissioner amendments represents only about a **$36 million** decrease in Total Revenue from current levels. For crying out loud, Pinnacle West spent more than that to defeat the clean energy ballot initiative. So what's the big deal about the sky falling from $36 million revenue decrease, especially when the Test Year Operating Income was determined to be **$672 million**? (Once again, shady adjustor transfers are obfuscating reality just like in the last rate case.)

Regardless, instead of eyeing ratepayers' pockets to pick, PNW/APS should focus on tightening the belt given the new normal. Here are some ideas for lowering debt and/or increasing Net Income to improve FFO Leverage and avoid further credit rating downgrade:

STOP borrowing hundreds of millions for imprudent investments like SCRs and ensure that watertight RFP processes are in place without obstacles/favoritism to get the lowest possible bids.[21]

STOP creating an illusion of growth in worthless IRPs that are contradicted by decade-long flat retail sales and flat peak demand so you can overbuild and maintain 22.8% reserve margin vs. the required 15% reserve margin over 2010-2020.[22] Reality: "For the three years 2018 through 2020, annual retail electricity sales were about **flat**, adjusted to exclude the effects of weather variations."[23]

STOP playing games with the early retirement of filthy plants like Four Corners by resurrecting them and creating even greater stranded assets that will remain on the ratepayer's heads for decades.

STOP buying politicians, doing insidious lobbying, paying for worthless "goodwill" advertising, and sponsoring what appears to be every other event in the state. Not interfering in ACC elections isn't enough. APS filings in response to the subpoena showed that between 2013 and 2018, APS reported spending more than **$182 million** on political spending, marketing, grants, and lobbying as follows: Political Campaigns: $72,182,150; Marketing and Advertising: $59,026,376; Grants and Corporate Giving: $46,769,262; Lobbying: $4,550,238.[24]

---

[19] "The ROO Is a Good Start, but It Doesn't Go Nearly Far Enough" at: https://docket.images.azcc.gov/E000015847.pdf
[20] APS calculation of revenue requirement impact at: https://docket.images.azcc.gov/E000016162.pdf
[21] Enphase Letter regarding APS 2021 RFP at: https://docket.images.azcc.gov/E000015902.pdf
[22] False Choice Between SCRs and Reliability at: https://docket.images.azcc.gov/E000016026.pdf
[23] Pinnacle West 2020 Form 10-K, Page 37
[24] APS political spending soared under Don Brandt. At: https://www.energyandpolicy.org/aps-political-spending-soared-under-don-brandt-will-that-change-with-a-new-ceo/

STOP stashing voluntary pension contributions to fatten the rate base, especially when the minimum required contributions for the pension plan have been zero. APS will have made **$700 million** in voluntary contributions to the pension plan from 2015-2021, when the minimum required contributions for the pension plan had been zero.[25]

STOP announcing ever-increasing dividends, rising at a ridiculous 6% clip year after year, to pump up the stock price, thereby providing even more perverse incentive to increase the rate base at the same or even higher percentage. The rate base in the 2019 rate case shot up **33%** higher in just three years. Value Line has called PNW's dividend payout rate as "nearly one percentage point above the utility average." APS paid nearly **$1.6 billion** in dividends from 2016-2020 as follows: $281.3 million (2016); $296.8 million (2017), $316.0 million (2018); $336.3 million (2019); $357.5 million (2020) and APS is on track to pay **$375 million** in 2021 — a massive **33%** increase vs. 2016.

STOP setting lowballed earnings targets for APS and Pinnacle West so that actual earnings for incentive plan purposes can be **42%** and **54%** above the 2020 target payouts and then crediting hot weather for that massive overage in 2020 earnings.[26]

STOP paying exorbitant Executive Compensation that is untethered from meaningful customer metrics. Convening a customer advisory board and stakeholder committee isn't enough. There is something very wrong with an "incentive" plan design when the CEO and President can make **141.1%** and **103.7%** of their salaries as cash bonuses, respectively, even when they were awarded <u>0%</u> payout for the Customer Service business unit in the aftermath of the rate comparison tool fiasco and an unprecedented AG settlement.[27]

2020 Incentive Plan Opportunities

NEO	Threshold (% of Salary)	Target (% of Salary)	Maximum (% of Salary)	2020 Actual (% of Salary)	2020 Actual ($)
Mr. Guldner	27.50	110	220	141.1	1,551,946[(1)]
Mr. Hatfield	18.75	75	150	99.9	699,090
Mr. Geisler	15.00	60	120	83.9	318,840
Mr. Froetscher	22.50	90	180	103.7	559,848[(1)]
Ms. Lacal	16.25	65	130	98.7	563,394
Mr. Smith	16.25	65	130	86.7	528,812

(1) The Committee did not award any incentive payout for Messrs. Guldner and Froetscher for the Customer Service business unit under the APS Incentive Plan in connection with APS's settlement with the Arizona Attorney General related in part to APS's Customer Education and Outreach Plan (see Note 11 of the Notes to Consolidated Financial Statements in the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2020 for additional information). The amount in this column reflects a zero payout for this business unit.

BOTTOM LINE:
These and other tangible actions would signal a real culture change and begin to restore APS's lost trust and credibility. Without them, APS will have no one to blame but itself in case of further downgrade of the company's credit rating — not the Commission and certainly not the ratepayers.

[25] Pinnacle west Form 10-K reports to the SEC at: http://www.pinnaclewest.com/investors/reports/sec-filings/default.aspx
[26] Pinnacle West 2021 Proxy Statement, P. 67 at: http://s22.q4cdn.com/464697698/files/doc_financials/2020/ar/Final-2021-Proxy-Statement.pdf
[27] Pinnacle West 2021 Proxy Statement, P. 75 at: http://s22.q4cdn.com/464697698/files/doc_financials/2020/ar/Final-2021-Proxy-Statement.pdf